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# Commodity-linked financing

Ninth International Gold Symposium, May 2010  
Peru



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# Deutsche Bank Global Commodities Capabilities

## Oil

### Global

- Active dealer across all standard products and crude quotes
- Additional ability to handle more unusual indices associated with crude-based gas contracts (e.g. Rheinscheine)
- Established track record in tailor made commodity-linked structures in the oil industry

## Natural Gas & Power

### US

- Leading market player in the US Natural Gas market
- Active in US LNG regasification

### Europe

- Leading market player in Natural Gas trading and marketing
- Leading market player for Gas-linked to oil products

## Metals

### Global

- **Market maker in precious & base metals**
- **One of only 2 market makers in iron ore**
- **Leading player in both long and flat steel products**
- **Unique uranium U308 trading capabilities**
- **Minor metals trading capabilities**

## Electricity

### Europe

- Leading market player in the UK and continental European markets

### US

- Electricity trading platform following its well-established Natural Gas trading and marketing presence with physical contracting program currently underway

## Emissions

### Global

- Active participant in these markets across Europe
- Active participant in global CER and ERU marketplace

## Assets and Index

### Global

- Largest provider of non benchmark Commodity indices
- Comprehensive range of beta, enhanced beta, market neutral and absolute return investment strategies

## Coal and Freight

### Global

- Active market player on financial coal and freight contracts
- Build up of physical coal supply chain

## Agricultural Products

### Global

- Active participant in the markets
- Structured and exotic solutions to meet customer needs
- Providing tailor-made solutions to booming LATAM markets

# Traded Metals Products

► Deutsche Bank is one of the first market makers in the **Iron ore, steel and uranium derivatives space**

## Non Ferrous Metals

- Aluminium
- Copper
- Zinc
- Nickel
- Uranium
- Lead
- Tin

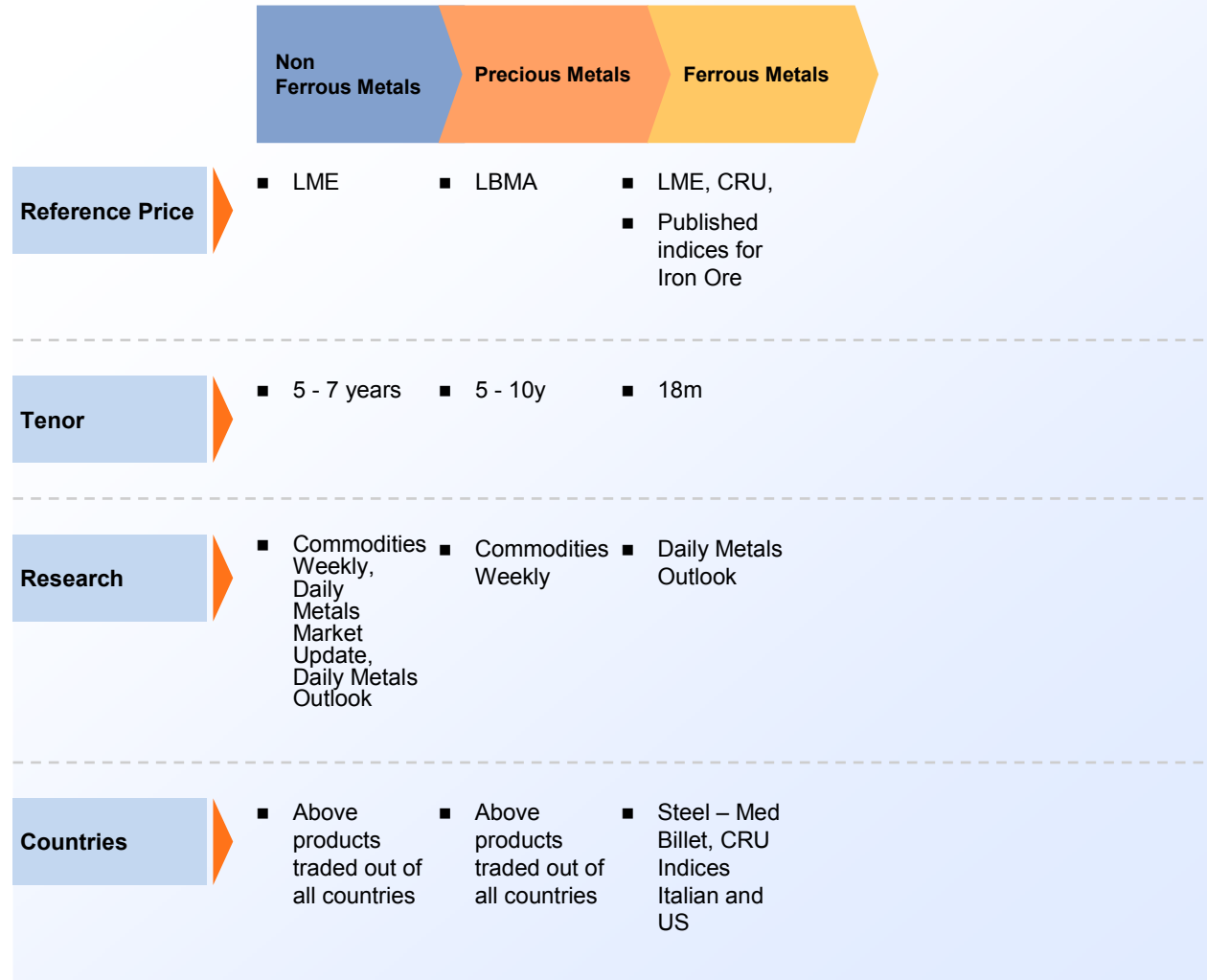
## Ferrous Metals

- Iron Ore
- Steel
  - LME Billet
    - Med
  - CRU Indices
    - Italy
    - USA

## Precious Metals

- Gold
- Silver
- Platinum
- Palladium

## Deutsche Bank Product Suite



# Commodity Structured Alternatives Overview

	<b>Prepaid Forwards</b>	<b>Prepaid By-product calls</b>	<b>Commodity Exchangeable</b>	<b>Mining Royalties</b>	<b>SCTF</b>
<b>Benefit</b>	Monetise future production	Producer is able to monetise value from its by-products by capping the price upside on future production	Low cost of funding, align funding costs with revenues, unsecured, avoids equity dilution	Low cost of funding, non-recourse to producer, non-debt accounting treatment	Available in situations where other lending not feasible
<b>Cost</b>	Medium	Medium	Low	Low	Low
<b>Position in capital structure</b>	Senior, secured	Senior, secured	Senior, unsecured	Interest in real property	Senior, secured
<b>Rating agency view</b>	Debt	Debt	Debt	True Sale	Debt

# Prepaid Forward Overview

**Prepaid Forward is a commercial contract between a seller and buyer of physical commodities**

**As the prepaid agreement does not constitute a fixed payment obligation the prepayment is treated as deferred revenue (non-debt) by the accounting authorities<sup>1</sup>**

## The Concept

- Client enters into a forward sale agreement (“FSA”) with DBAG by which Client would be obliged to deliver a specified quantity of commodity to DBAG on a monthly basis over the tenor of the structure
- At the inception of the trade DBAG will provide funding towards the future delivery of commodities
- Initial payment based on the current forward curves of the respective commodities

## Benefits

- Monetises future by-product production
- Bilateral agreement
- Gives Client certainty of future cashflows at a transparent price

## Other Features

- Prepaid can be physical or financial – physical prepaids are likely to be treated as deferred revenue
- Flexible terms and conditions – tenors are flexible and can be tailored to accommodate Client’s objectives

<sup>1</sup>. Deutsche Bank does not provide accounting advice, and nothing herein should be construed as such. Clients should obtain the advice of their own accounting professionals regarding any of the transaction types discussed herein.

# Prepaid by-product Calls

## Overview

**Prepaid by-product Calls can generate financing on the entire revenue generated by future production or just the price upside above a cap**

### The Concept

- Client enters into an agreement with DBAG by which Client would be obliged to give away the price upside on by-product production to DBAG
- At the inception of the trade DBAG will provide funding towards the future delivery of commodities where Client has a price cap on these sales
- Initial payment based on the current forward curves of the respective commodities

### Benefits

- Monetises future by-product production
- Bilateral agreement
- Gives Client certainty of future cashflows at a transparent price

### Other Features

- Prepaid can be physical or financial – physical prepaids are likely to be treated as deferred revenue
- Flexible terms and conditions – tenors are flexible and can be tailored to accommodate Client's objectives

# Commodity Exchangeable Overview

**The Commodity Exchangeable provides a cheaper alternative to plain debt financing while avoiding the dilutive impacts of an equity-linked product**

## The Concept

- Commodity Producer issues a Commodity Exchangeable Bond to the Capital Markets, whereby the Client would be exchanging potential commodity price upside with investors as opposed to the more traditional approach of converting debt into its own equity

## Benefits

- Takes advantage of high commodity price levels and high volatility levels
- No equity dilution
- Financing at significantly reduced cost through the sale of expensive commodity optionality
- Coupon to be tax deductible

## Other Features

- Flexible terms and conditions – tenors are flexible and can be tailored to accommodate Client's objectives
- Risk Mitigation Structure – This feature allows Client to swap out of the short European Call into a Short strip of calls. This minimises any settlement risk created by the short European Call and aligns any payouts under the structure to Client's actual revenue inflows

# Mining Royalties

## Overview

### The Concept

- A Royalty trade allows a Client to receive cash upfront in exchange for giving Deutsche Bank the right to receive a percentage of mineral production from a mining operation
- The royalty payment can be in the form of a gross overriding royalty or a net smelter return
- The royalty payment is free of any operating or capital costs and environmental liabilities

### Benefits

- Monetises future production
- Royalty can be done on a fixed or sliding scale basis depending upon the Client's desired exposure to the commodity price
- Cap can also be placed on royalty volumes so that mine life upside is retained by the Client
- Typically will not violate negative pledge constraints with existing debt

### Other Features

- Client may obtain a right of first refusal on any proposed assignment of the royalty
- Can be structured in various forms including Net Smelter Return, which is a royalty based on the gross proceeds paid by a smelter/refinery to the miner, or gross overriding royalty



# Structured Commodity Trade Finance Overview

**This is a European bank product, where the participants are commodity focused teams**

**Club syndication process results in cheaper pricing for clients**

**Typically one of the cheapest financing options available to producers**

## The Concept

- Amortising medium-term loan syndicated in the international bank market to be used to finance capital expenditures or acquisitions
- Secured by assignment of sales contracts proceeds to be paid into a pledged collection account held with Deutsche Bank and mortgage over fixed assets
- Repayment from sales proceeds received in the collection account
- Available for acceptable commodities (traded or untraded). A key feature for acceptable commodities is price transparency and general market liquidity. For more liquid commodities, hedging instruments can be used to lock in pricing advantages and reduce applicable debt service coverage ratios
- Exchange traded commodities are generally preferred

## Benefits

- In today's market, Structured Commodity Trade Finance ("SCTF") is usually one of the cheapest option for term loans available to commodity producers
- Large amount can be raised through syndication in a wide international banking market. Even after the credit crunch, the SCTF market continues to benefit from good liquidity

## Other Features

- The size and term of the transaction depend on the production profile and geologic resources
- Structures typically include security assignments, pledged collection accounts, debt service coverage ratios and negative pledge provisions

# Prepaid Forward – Case Study

Ninth International Gold Symposium, May 2010



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# Physical Offtake and Prepay for Century Mining Corporation (“CMM”)

## Producer Benefits

- Transaction was done simultaneously with an equity injection of C\$26.1m from primarily a strategic investor
- Enabled CMM to initiate the re-start of its Lamaque mine which had been on care and maintenance since 2008
- CMM secured commodity-based funding while hedging a portion of their downside risk to gold prices and retaining some gold price upside
- Since the funding discussions were disclosed to the public the market cap has increased from C\$30m to +C\$100m.

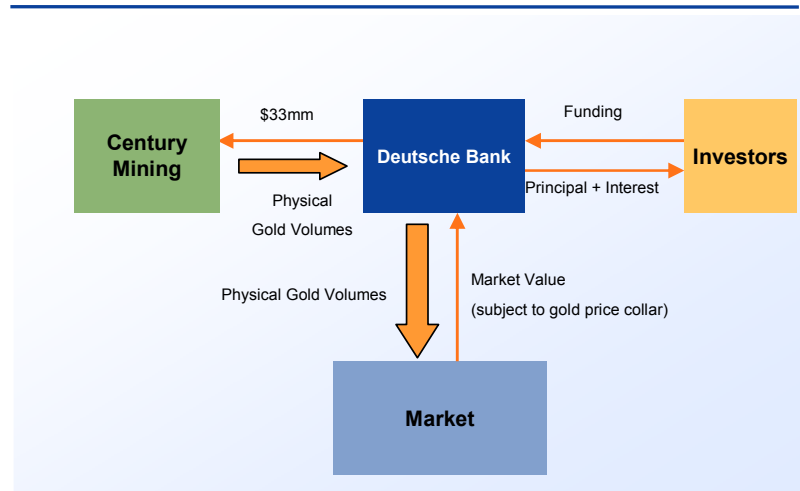
## Transaction Overview

- Deutsche Bank (“DB”) advances US\$33 million to CMM via a prepaid forward transaction in return for receiving a total of 61,183 ozs of gold over 5 years. Amortisation amounts mirror production profile (3.1 year duration)
- Transaction is structured to ensure the ultimate obligation for CMM is to deliver physical gold to DB
- The structure incorporates an embedded price collar, where DB guarantees CMM a minimum price for the 61,183 ozs, in exchange CMM gives away gold price upside above a price cap
- DB underwrote the transaction, demonstrating its willingness to use balance sheet for key clients

## Summary Terms

Prepaid Forward Agreement	
Buyer	Deutsche Bank AG
Seller	CMM
Prepayment Amount	US\$ 33 million
Term	5 years, starting January 2010
Volume	61,183 ozs
Credit Support	First ranking lien on Canadian assets, and cashflow guarantee from Peruvian subsidiary

## Transaction Diagram



## Transaction Highlights

- Proceeds will be used to re-start underground mining with an aim of delivering first gold bar within 4-5 months from date of funding
- DB is senior secured against all assets and mining infrastructure of the Canadian mine and have a cash flow guarantee from CMM’s operating gold mine in Peru; currently producing ~18,000 oz gold per year

# Awards & Achievements 2009



## Energy Risk Deals of the Year 2009

- Excelerate Energy Deal of the Year



## IFR Awards 2008

- Commodities Derivatives House of the Year



## Environmental Risk Rankings 2008

- No.1: CERs - primary
- No.1: CERs - secondary
- No.1: UK - Renewable Obligations Certificates



## Global Pensions Award 2008

- Commodity Manager of the Year



## Energy Risk House of the Year Awards 2008

- Deal of the Year: Chesapeake Energy
- House of the Year: Precious Metals
- House of the Year: Base Metals



## Euro Fund Award 2008

- Commodity Funds:  
DB Platinum Commodity EUR Fund



## Energy Risk Asia Awards 2008

- Energy Risk Manager of the Year - Asia



## Asia Risk Commodity Survey 2008

- No. 2 Overall



## Asia Risk End User Survey 2008

- No. 1 Overall Derivatives Dealer



## Energy Risk Rankings 2008

- No. 1 Research in Weather
- No. 1 Research in Emissions



## Energy Business Awards 2008

- Excellence in Emission Markets



## Institutional Investor End User Survey 2008

- No. 1 Overall



## Euromoney Awards for Excellence 2008

- Best Risk Management House
- Best Risk Management: North America
- Best Risk Management: Asia

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